



Movies • Games Content • Television • Broadcasting • New Media  
**UTV Software Communications Limited**

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**INVESTOR CALL – JANUARY 27, 2009**  
**RESULTS - QTR ENDED DECEMBER 31, 2008**

**Moderator:**

Good evening ladies and gentlemen and welcome to the post result conference call of *UTV Software's* Conference Call, hosted by *Prabhudas Lilladher*. For the duration of the presentation all participants' lines will be in the listen only mode. I will be standing by for the question and answer session. I would now like to handover to *Mr. Mihir Shah*. Thank you and over to you Sir.

**Apurva:**

Thank you moderator. Firstly, on behalf of *Prabhudas Lilladher*, let me welcome you all to the Q3 FY09 Conference call of UTV Software Communications. From the management today we have Mr. Ronnie Screwvala, CEO, Mr. Rajeev Wagle, Group CFO and Mr. Amit Banka, Senior Vice President Business Development and Strategy for UTV. I now like to pass on the floor to Mr. Ronnie Screwvala to discuss the developments for the quarter after which we can open the floor for the Q & A session. Over to you sir.

**Ronnie:**

Thank you. Good afternoon everybody and thank you for joining in. Before we get into a Q&A session, I will take just a few minutes to give a sort of an overview of the quarter and the nine months till date and to a certain extent the year as we see it going forward. As it is apparent from the results, we have basically looked at around Rs. 160 crore revenue for this quarter, which we are very pleased with given all the environments and circumstances around which we have still focused on revenue growth as we have seen it on a quarter to quarter basis which brings us to a nine month quarterly total of about Rs. 468 crores cumulatively which we also believe is a good growth factor. As we see this going forward for the year, given what we have, I think for the last 6 months overall as I have shared with you earlier, we have taken severe cross correction measures and we have looked at each of our businesses very strongly along with our Board of Directors and with our other strategic partner Disney to look at how and where we would see focus continued to remain very sharply on the bottom line and where ever we felt actually the focus between bottom line and top line takes precedence then the bottom line is taken precedence as far as that is concerned. I see overall looking at the end of the year we should be about Rs. 650 - 660 crores which is still a 50% growth year on year from the previous year which we believe is an overall good progress given everything else that has been going on in the environment since September this year. If we were to start on our operating profits for this quarter which stands at about Rs. 29 crores and I will go through some of the break ups as far as that is concerned, but I will also like to point out there that includes the Rs. 11 crore loss from Broadcasting which

obviously on a quarter to quarter basis was not there in the previous quarter of the same financial year. We have also in this quarter had some foreign exchange gains that mainly comes from two points one is from our Hollywood slate specifically with the movie *The Happening* and from that perspective it would be more on the basis of where and when we invest it in the Hollywood movies and the rate of exchange of the rupee to the dollar then as compared to what it is now. And a little bit from our Gaming vertical also where the foreign exchange gain is recorded because basically in our console gaming while although we are hubbed in the UK, we also operate and distribute our games primarily in the US and Japan also, so the exchange gain that would come from a weakening pound to the US dollar would be the two contributors to the foreign exchange gains for this overall quarter. Correspondingly I think we also have certain Interest Income in this quarter and that would be from managing some of the cash flow left behind from our overall injection of Equity that came in at the beginning of the year from Disney. So to look at each of the verticals I would go into each of the verticals and discuss their operating margins and where we stand overall as we go forward. I think what would also be relevant to note is that, for this quarter we have very obviously been focused on seeing how to grow our verticals as we go forward and in the chart, if some of you all had a chance to read it, our contribution from our 5 verticals for this quarter in terms of the top line of Rs. 160 crores comes as follows, 26% from Television, 25% from Gaming, 23% from Movies, 22% from Broadcasting and 4% from New Media. Now that may not be how the whole year would look and I think the 9 months would look substantially differently also but I think that would be a strength where we are looking at really strengthening on our multiple activities, businesses as we go forward. So to plunge into each of the businesses and their operating margins and where we see them today, TV content for the 9 months we had about a Rs. 101 crores in revenue compared to the 9 months last year of about Rs. 72 crores, so that is a decent 30% plus growth year on year, basically arising out of our growth in air time sales and we also ran two new shows, one on *Colours* and one on *Zee*. If you look at that obviously when you are looking at new shows whether there are in TV content or in Airtime Sales, they have an overall pattern which has first 3-6 months which is flat. If I look at the whole year in perspective it would be true that we would have to acknowledge the operating margins have come down to about a 5%, but I think that is partly due to the overall growth that we have pushed also in this entire vertical. For us to be able to take this to a 8,9 or 10% operating margin, that is really where the team is focused on going, if we have a say of whether that is possible or doable, I think that is very doable as the focus is therefore obviously on shedding those shows where we don't see the future in them and the cost model in them because I believe we have an overall 30% growth year on year in the TV vertical on the top line and our focus would be to try and bring this to a 9-10% operating margin from the current 5% operating margin.

Moving on to Movies this quarter, we had two releases only, one was *Fashion* and the second one was *Oye Lucky* and in the next quarter of Jan, Feb and March, we have planned three releases one is a movie called *Dev D* which releases next Friday another one is *Delhi 6* which releases on the 21st of February and one more which is a comedy called *Dhoondthe Reh Jaoge*. They may be a possibility of a 4th one. Overall I would say we had, in this year, also scheduled two other very large movie releases one is *Main aur Mrs. Khanna* starring *Salmaan Khan* and *Kareena* and another movie directed by *Vishal Bharadwaj* called *Kaminay* starring *Shahid Kapoor* and others but both we have moved to 09-10, primarily because we are still at the final stages of production and also there is a lot of clutter that happened during Christmas and into January with many releases like *Rab ne Bana di Jodi* followed by *Ghajini* followed by *Chandini Chowk* followed by *Billu Barber* followed by our own movie *Delhi 6* and the lesson we have learnt over the last one year is that movies require a good breathing space and with two weeks our scheduling goes into the next year for these two primarily because of the genre that they are in, it is clearly much more of a summer holiday special and keeping in mind there is going to be a fair amount of cricket in the forthcoming quarters also. So if it wasn't for the delay in these two movies I would say overall we would have recorded a slightly higher growth in the overall movie section, means if we had planned to release these two movies which technically are complete but we have decided to stagger our release from that point of time. The year I would say overall including the last 4th quarter, we see a good year but I guess the question in the minds of most people would be for a company that seems to have had a better year than most people producing Hindi movies coupled with the fact that it continues to win awards for all its movies and has generated a lot by word of mouth that doesn't necessarily reflect in the operating margins. That would not be an unfair statement if one was looking at the movie business prima-facie but one should look at the exploitation cycle on the movie. And here is how I think the movie business has evolved over the last one year and will continue to do so as we go forward. I think what used to be the case in terms of revenue flow which we all know was primarily theatrical that has moved to satellite television etc. But I think the overall revenue flow and the cash flow happens now over 5-6 quarters for a movie and that is really where you have to gauge the movie which makes it difficult to assess when we go forward. The primary difference I think comes from exploitation of satellite and television rights which as we all know is the final rights in the exploitation and normally goes all straight to the bottom line because the others have some bearables in terms of cost. So I think the deferment of satellite rights has created what could be the reason for lowering down of margins but it doesn't really reflect that as a true picture and we believe actually there is a lot of good news in that possible short lived bad news in that context. The second one is that in our theatrical revenues overall, because the market has become competitive the noise level for what you need to spend on fringe advertising and

publicity has gone up, that allows you to have a much larger release, it allows you to have much larger gross profits but on your pure theatrical revenues it puts pressure on your first exploitation cycle because of the increase in print and publicity. At net level if we were to go with a model that was almost existent a year ago, where a movie would be made and we would sell satellite rights exclusively for 5 years to one channel for Rs. 10-12 crores or Rs. 15 crores as the case may be, that model in that context has gone away but because of that a new model has emerged and in that model even if we were to sell rights we would sell them now for 1 year or 1 ½ years with limited runs, which actually means that, that first exploitation revenue that we viewed at Rs. 10-12-15 crores may actually be looking at Rs. 4-5 crores but for the next 4 subsequent years, in that context what you would have looked at as almost negligible you are now looking at incremental revenues Rs. 2-3-4 crores year on year. At the end of 5 years obviously it would be the objective that the cumulative gains that you would get would be substantially more than 12-15 crores and taking into account the deferred cash flow and the interest part that would apply to that. That's the objective and I think that is what the new model is coming up with. So therefore it is a fine line of how you define first exploitation which normally used to be first sale to satellite except now it is to multiple satellite channels and for a much lower tenure. So that is how I would say the operating margin in Movies would need to be looked at and the fact that it is 6 quarters in terms of the first cycle. I would say overall in terms of substantial cost rationalization that is happening in the industry, I think we have left that profit and we believe that right now a fair amount of that we will see in 09-10 slates and the true benefits we will see actually in 10-11 slates clearly because that is where we will be able to implement it fully to the level it could have been done. I think our objective is therefore to look at cash breakeven in the first cycle of exploitation and now we mean the first cycle would be the first phase and not the protracted sale of over 4-5 years and building an overall catalogue allows you then to have a regular income that would not upload in the first 3-5 years in a movie and I think that is really the overall change which the entire industry has to look at when you analyse it. We have had some questions in the last quarter and I would like to reiterate today that cash flows from our Hollywood play that is three movies that we have released in the past will flow in 09-10, we will see a fairly significant flow of that coming in 09-10 roughly not less than Rs. 50 crores and upto Rs. 75 crores the flow will come in over April-09 and upto March-10 in that context. Coupled with that at this point we have absolutely no plans of doing any further Hollywood movies than the ones that we have done we have nothing on the cards, we have nothing in negotiation and at the moment no specific plans as far as that goes. So I think this year we will end on a 30-35% growth on our movies vertical which if we had released *Main aur Mrs. Khanna* and *Kaminay* would have gone through with our original thought process would have 70% growth but these two both being big movies moved into the next quarter, I think is an overall timely environment

for us right now because of the reasons I said in timing of the slate. Overall with Rs. 800-825 crores in the entire movie verticals, it is our objective to cap it at that and start reducing it as we go forward, we do believe that we do require some further funding right now only because we have ramped up our slate going forward, we have been able to look at an exciting slate next year which includes a lot of movies, which is about 12-14 movies in that segment, 15 actually to be honest and therefore our slate has grown substantially. These are all movies which are already on the floor, already for release in some form. So while we may have a peak funding of about Rs. 25-150 crores further, we see that now going downwards after that as we see funds forthcoming from our Hollywood slate and the liquidity that comes in from our slate which we will release that is the 12-15 movies including the movies that we have already invested into right now.

And lastly some of you all may have read that Disney has also looked at handing over they entire slate of distribution here, which to us is at no cost, with our existing distribution income it goes straight to our top line with a 10% net to bottom line on that because we have a distribution commission with no cost or risks benefits to that.

Moving on to Broadcasting, I think today based on some of the cost corrections we have done, we do clearly have one of the best cost models today. If you look at the 4 channels that we are running there and I will go into the positioning of the 4 channels, we do get asked a lot of questions with people saying that you are in specialty segments and I will reiterate and sometimes be repetitive of that now we have 11 general entertainment channels with a 12th general entertainment channel from *Warner* and *Miditech* being announced in the next quarter and therefore that is the space we clearly feel is too competitive for us to be in, in that context. If we see one other broadcaster who is novel and has been pretty much in broadcasting, also just announced yesterday or day before their results for the quarter and they are looking at a cumulative loss just for the quarter of Rs. 110 crores for running their mostly specialty channels and one GEC channel which ranked 6th in its ranking. So if you look at that segment and if you look at our overall operation of our 4 channels and a cumulative loss of Rs. 11 crores, we believe we are in the right investment mode and we believe our cost model is one of the best. In the 4 channels, *Bindass* has a very unique positioning, it may not appeal to the entire cross section of the audience that may be on the telecom right now but to our core audience of people in the age group of 18-24yrs, it struck a chord besides which *Bindass* is no longer viewed as a channel it is basically more of a youth brand and any one therefore viewing *Bindass* has to view it by understanding in detail what our ground activity plans are, what our internet plans are, what our overall approach to the entire brand outside of our channel is. *Bindass Movies* is clearly the No.1 Hollywood channel, has upstaged and overtaken *HBO* and *Star Movies* and the rest. I believe these channels are operating from 7-8 years so it will be some time before we

can get our revenues to that level but it is definitely very well positioned out of an endeavor to be able to see good gap that we can fill. *World Movies* occupies a very unique form of thrill, many people have again asked me that isn't it a niche, and I am saying that our viewing audience for *World Movies* is 12-18 million. If you look at the per audience which in the case of *CNBC English business news* it is at 6-12 million so you can look at niche as narrow as you want to look at it and as broad as you would want to look at it. So the English business news is a Rs. 300 crore space and yet its viewing audience is half of what a *World Movies* viewing audience is, that would define the scope if you look at that perspective and these are again high network individuals the core focus groups that our advertisers want to reach. I think one important point to note is all our 4 channels since the day we have launched them have been in pay mode and that means we have got our foot in the door and as we go forward and the pay environment matures, we will find that even if people find one such real movie in a year will still like to put that in a tick mode when they look at paying for the channels. So our stickiness models of pay is come in very strongly for the next 12-24 months as the model matures overall as we go forward. And lastly I think we had said right in the beginning that our cost model we have corrected and we have brought down our investments substantially and not more than Rs. 100 crores to keep cash flow over the 15 months starting from January 09 and upto March 10 and we stand by that completely and further more the cost models that we have been able to develop has landed up with a reduction overall in carriage fees cumulatively between the 4 channels to around 40% besides other trimming that we have done in content, in acquisition and in staff costs. So I think we are in a good place there, we have pretty much set our targets, I think the reflection of our losses overall on a quarter to quarter basis will fairly reflect what our plans are and what we want to necessarily do.

Moving on to New Media as we all know, New Media for us is a combination of the internet and the digital space and for that I think we have been able to do well, it has really been our first year of operation as you will see we have a revenue of Rs. 14 crore coming from our internet and digital activity which I think is highly commendable for a team of an absolute start up. We have three internet properties *utvi.com* which has now been ranked officially by Google as No.2 business website in India and above *Myiris.com* and above *My Yahoo Finance* also. *Techtree.com* which is our Technology and Gizmo site which is what we acquired and that continues to remain a No.1 technology sort of site in India and a third one we will launch which encompasses all our digital audio and music player along with our entertainment properties in *UTV* which is *utvatplay.com*, our digital space goes forward as far as that goes too. For the next year we don't see any significant money or investment flow going to that but not exceeding more than Rs. 10 crores will go into the New Media space overall for varying on a scale for the business as we go forward.



Lastly on Gaming, I think *Indiagames* has recorded a good healthy 50% growth year on year over last year which is good. Their focus on the Games on Demand as being the only platform in India that talks about revenue from a subscription model is unique, we have about 11,000 subscribers there and it is our aim to cross the 40-60 thousand mark. We have strong ties with *BSNL*, *MTNL* and *Airtel* to sort of push our games along with their pipelines that go into the houses and I think on both these counts India games is a cash positive, does not require any funding and has these two growth models as we go forward. *True Games* which is a start up has been acquired and have been founded to a certain extent on the West Coast of the US and their main focus is online through Multi player games formats. We are on track for the 3 IP's that we are developing there and the 3 things that we need to do there one is to create the online platform for operating the MMOG in that space. In the US and Turkey which is the one emerging market that we are experimenting outside the US and the rest of the world with key markets like China, Korea, Japan are the ones where we syndicate our 3 IP's for which we have almost closed off the deals on the European Union and China and to a certain extent with Korea. In *Ignition*, outside of our publishing business which gets represented in the revenues that you get from Gaming along with the contribution of India games is the investment into our 3 intellectual properties *Wardevil*, *Reich* and *Angelic* which is now called *El Shaida* and right now we are on track and progressing, infact in the last quarter we made demonstrations to all external parties including to our platform partners, *Microsoft* and *Sony* on whose platforms we are designing these games, we are very pleased with the initial response that it got, it is still a year plus away from overall looking at the release date and I believe now the entire de-risking models for what we want to do in these three games is what we spend the rest of our focus on the rest 3-4 months. What we mean by de-risking is a combination of partnering with a platform for marketing support of a different nature so we don't have to spend that much on marketing or looking at others to partner with us on these 3 IP's so we are not the last man standing which is a model that we pursue it in our movies but then it is in our home country and we know exactly where we are going. So as much as we got to do *The Happening* we have got to do it with an expert like Fox who knows how to spend the right kind of P&A to market the movie, we need to find the right buyer and I think the next 3-4 months is the right time where may be we will go in pursuit for that. That would complete our overall Gaming vertical. So I say overall given the environment and where we are at and given the factor that the operating margin will be viewed, I think we are not displeased with our operating margins and movies but I know we have a lot of work to do there, we are working on that with a very strong focus. I think in Television content we are not happy with the 5% margin and I am looking at in the 9-10% range. Broadcasting is I think the best we have done in the cost model and what you have seen in terms of the bouquet and what it represents. The pay revenue potential and therefore the cost model is an overall interesting

process. In Gaming the margins will really come in when we look at IP's that we will be exploiting which would start happening into the next year and into the year after that. In New Media I think given what we were able to achieve in that Rs. 14 crore, that is a significant way for 09-010, it is significant to note that it is also a very strong value created for us as we go forward and we are very focused in the play. I think that kind of summarizes where we are at today and I will be happy now to take questions.

**Moderator:**

Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press "\*" and then "1" on their touchtone telephone. If you wish to remove yourself from the questioning queue you may press "\*" and then "2". Participants are requested to use handsets while asking a question. Anyone who has the question may press "\*" and "1" now. The first question is from the line of Mr. Amisha Harya of JHP Securities. Please go ahead.

**Amisha:**

Hello Mr. Screwvala.

**Ronnie:**

Yes please.

**Amisha:**

I just wanted to know, what are the contents of the Other Operating Income?

**Ronnie:**

The other operating income up there would be basically exchange gains which I have clarified are on two counts, one is from a Hollywood play into the motion pictures vertical and the second is to a certain extent the pound to a dollar based on our console gaming activities in the UK and US.

**Amisha:**

And other income because I logged in a little late so I don't know about it.

**Ronnie:**

The other income as in, income of Rs. 2 crores?

**Amisha:**

Sir, other income of Rs. 2 crores, yes.

**Ronnie:**

That Rs. 2 crores would be treasury income.

**Amisha:**

Ok, and Sir, I was just going through your annual report of 2007, in that you have mentioned that you have plans to come up with *Bindass Cafés*, so any take on that.

**Ronnie:**

At this point looking at the overall retail space, I think it is something that we would definitely have on our cards, but we would not go about investing in them, we would partner with people.

**Amisha:**

Ok, but then anything in near future or anything after whatever is happening at the economic level, after it settles down after that?

**Ronnie:**

No, I don't think it is the question of that settling down, we do have a test case going out with Café Coffee Day that we are



starting off in this quarter, we will see how that goes, so it is imminent but it is not huge.

**Amisha:**

Ok, thank you sir, that's it from my side.

**Ronnie:**

Thank you.

**Moderator:**

Thank you. The next question is from the line of Ms. Madhuchanda Dey of Kotak Securities. Please go ahead.

**Madhuchanda:**

I have three questions; the first is in your earlier interaction you always used to mention about a broad revenue breakup that you are looking at, so we wanted some light on that. And my second question is we somehow fail to gauge the substantial EBITDA margin that oscillates widely across quarters so what kind of sustainable EBITDA margin across segments are you looking at and three, you are talking about launching an IP in FY 10 and if running into FY11, given the current global scenario what is your take on the viability of these kind of targets?

**Ronnie:**

Ya sure. I will go one by one, on the first one which is the revenue breakup, we are looking at which is at 40% to movies, about 13-14% respectively from Broadcasting and Television Content and about 20% going upto 25-30% from Interactive and about 3-5% from New Media is the relative mix, that may change from quarter to quarter but by an large on an annualized basis that is what we would see. No. 2 in terms of your sustainable EBITDA here is what I would have an answer to that is I think in our television business we are working towards 8-10% rough margin and we would need to track us with a performance on that whether we performed or we underperformed. I think on motion pictures as we go forward, we want to see an overall margin that would be in the 20-25% going to 30% range. Having said that we are also clear that we are trying to build an overall library that we have successfully done in the last year for the first one where we now have a decent base to go forward and when you add that to the 12-15 movies that are to be released in FY09-10 that makes us formidable. Now these libraries in the past would have been worthless because in most case it is only for 5 years by the time you really start flexing your muscles to run a library it will be 3-4 years hence and I think that is the change that will happen here that the next year when we are going out there we would have an asset of about 30 more movies that we would be re syndicating out to 6-7 channels in a meaningful manner and therefore our margins we see only going up because we are doing our cross correction for where we want to be, we want to see the syndication model going forward. Third, we started experiment on VOD and on pay per view with the DTH channels with *Oye Lucky, Lucky Oye*. We had till date about 50,000 people who subscribe at a Rs.100/- per viewing on that *Oye Lucky, Lucky Oye!*, so that is a good first gathering, we are working with all the 5 DTH operators to make this into a meaningful revenue stream in the next one year which will almost make it like there is music, home movie and satellite then they will be VOD and pay per view and that

is a meaningful addition for us as we go forward. We are also testing the type, we did a massive research after the *Oye Lucky* experiment and people came and told us that while they did test it, they would have preferred it if the pricing was Rs.75 and Rs.50/- because they still felt that they could rent a DVD pirated rather for Rs.50/-. So when experimenting the bench mark we do believe that by getting a 100-200 thousand kids on a pay per view within 18-21-28 days from a movie release is an extremely strong model for us to augment that one more revenue stream and margins and today IPTV is small we have syndicated, we have started syndicating all our movies on any IPTV platform available any IPTV major going forward. All that long story cut short we are looking 25-35% margins that is how you would need to judge us and view us when it comes to motion pictures. Broadcasting 09-10 will still be a negative but it is our objective to see to it that we have a turn around and be breakeven in the financial year after that so the operating margins would not be applicable. I think in Gaming our publishing activity has to be viewed at about 15% margin and our IP is where we really need to score that will take our Gaming margins to anywhere between 25- 30% overall. *India games* has focused on its growth but I think considering that it requires no further capital it will record those same kind of margins. New media is small, it is insignificant so it will not make a difference and it would need one more year at a break even level before the margins go through. Lastly on the gaming IP I just forgot your question what was that you said?

**Madhuchanda:**

I said that given the current gloomy situation and the global market place..

**Ronnie:**

Ya, ya, let me be clear when I think you can go down to almost 10 websites to tell you the trend and this is not that, gaming is absolutely recession proof, infact in the mature markets like Japan, EU and the US typically more people go out there and spend a lot more time on gaming on a gloomy economy then they do anywhere else. So I think it is not the recession, it is all about the content of the game. Our initial reactions from Microsoft and Sony have been very encouraging. So it will primarily depend on our content offering and how we market it and how we partner with it but the gaming part should not and will not get effected at the 59 and 99\$ pricing in terms of the recession.

**Madhuchanda:**

Any kind of trend in the last 3 months to kind of bolster that argument?

**Ronnie:**

Ya. Online if you mail me I will send you 3 links of games that have actually been, some of the highest selling games of all times have happened in this year, since October or September, so the statistics are very much there. On content driven, its like movies I mean you are number 1 box office of all time in India has happened in the last 3 months so if you know its content and if you can drive it and it is well marketed, it pushes the envelope.

- Madhuchanda:** Ok. Thanks a lot.
- Ronnie:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mr. Nikunj Doshi of Envision Capital. Please go ahead.
- Nikunj:** Hello my questions have been answered thanks.
- Moderator:** Thank you. The next question is from the line of Mr. Saurabh G of Kotak Securities. Please go ahead.
- Saurabh:** Good afternoon to the management team. Just one question if you could throw more light on the interest income which you have reported in your results at around Rs. 19.5 crores, what will this pertain to?
- Ronnie:** It would be basically part would be a certain amount of cash that is sitting on that and part would be something that we would need to do, one or two of our subsidiaries are overseas in that context, therefore a transfer pricing we would need to do that from an income tax perspective in any case.
- Saurabh:** So this if I understand is basically from whatever cash you have in your balance sheet?
- Ronnie:** That's is correct.
- Saurabh:** Ok, so other operating income of around 25 crores what would be the proportion from foreign exchange gains.
- Ronnie:** Bulk of it would be foreign exchange, in fact I must say all most all of it is foreign exchange which is a combination of as I mentioned on *The Happening* and about and on the Gaming verticals.
- Saurabh:** Ok, and revenue through the Hollywood projects are expected in the next financial year in the first half or will it be towards the last half.
- Ronnie:** No it will start from July or June, Q2, Q3 and Q4.
- Saurabh:** Ok, fine. And I have just one question on taxes, you have paid around 9.5% of tax as a percentage of PBT but we have had some deferred tax benefits, what are the guidance on actual tax in terms of mostly next year.
- Ronnie:** I think it could be 15% of as an effective tax rate by the end of this year.
- Saurabh:** Ok, and this would be because of whatever tax planning and treaties that you have in place?
- Ronnie:** Ya.
- Saurabh:** Ok, right if there is anything else I will come back. Thank you.

- Ronnie:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mr. Tejas Shah of IL&FS. Please go ahead.
- Tejas:** Hello, Hi sir.
- Ronnie:** Hi.
- Tejas:** Sir, this can you share with us your box office collection figure of *Fashion* and *Oye Lucky* and correspondingly your cost of production also? Including post production and marketing?
- Ronnie:** Ya, the box office for *Fashion*, by the way just so as to clarify so that there is no misunderstanding, the advertisements one sees in the newspapers on *Ghajini* and everyone else, those could be very, very distracting because of the following reasons, one is they are all gross box office figures and that is including entertainment tax which is 40% component for e.g. on *Fashion* the net box office after tax was about Rs. 30-31 crore and that is what *Fashion* did at the net box office, so if I were to gross that up to the advertisement figure that you normally see about another 40% would be about 40-42% but it is actually Rs. 30 crores of net box office, *Oye Lucky* would be about Rs. 8-9 crores primarily again that is the movie that we see now moving more in the satellite and other spheres and the VOD because it got released on the weekend of the 26/11 attack.
- Tejas:** And Sir a corresponding Cost of Production?
- Ronnie:** Corresponding cost of production for *Fashion* I believe overall is Rs. 18 crores and *Oye Lucky* would be Rs. 6 crores.
- Tejas:** So we made money in *Oye Lucky! Lucky Oye!* Also?
- Ronnie:** Yeah, I think as I said the calculations never work on the basis if I were you, it does not necessarily work on figures on net box office and therefore you made money. The charges of your X box office is X and your cost is Y then the gap there is not relevant because in the net box office comes the share of the distributors, to your theatrical you have to add your print and publicity cost and all revenues other than this have a much more direct contribution to the bottom line which is music sales, home video and satellite. So the calculations are quite different than that.
- Tejas:** So this Rs. 6 crore cost of production includes the print cost and everything?
- Ronnie:** No Rs. 6 crores is the cost of production.
- Tejas:** So sir, how do we go about it then, if we have to project how much revenue we are going to generate per movie per se. How do we go about it as an analyst, how do you model it?

**Ronnie:** Yeah, I mean it is a 10 minute answer that I have to give you but let me try and be as brief because maybe some of the others may be also interested in the same model, here's a hypothetical we make a Rs. 18 crore movie called *Fashion*, we then go on and spend another Rs. 6 crores on printing and publicity, now the net box office is Rs. 30 crores, so Rs. 30 crores means the contribution that comes back to you after theatrical share lets say on an average it is 50% and it is Rs. 15 crores so you get Rs. 15 crores into your kitty, cut out less the Rs. 6 crores that you directly spend for print and publicity for the theatrical release and you are left with Rs. 9 crores towards your contribution to Rs. 18 crore cost of production, so now you have a deficit of Rs. 9 crores, now to that Rs. 9 crores you will then add resale, DVD sale out right supposing you sold music for Rs. 3 crores and DVD for Rs. 3 crores and so now you are Rs. 3 crores in the gap, that Rs. 3 crores will be VOD in all the satellite sales and IPTV and then of course all of this in the first cycle and then you have a negative and then you have library material and a print.

**Tejas:** Perfect.

**Ronnie:** Does that answer your question?

**Tejas:** Ya sir, precisely. Sir my second question on a broader strategy that we adopted almost 1 year and 1½ year back that we built a portfolio of small budget movies or parallel movies if I can call it with couple of big budget movies like *Race*, *Jodha Akbar* or *Fashion*, it has been like almost considerable time since we adopted the strategy, so do we see a successful strategy like that of *Ghajini* or *Rab ne Bana Di Jodi* like made us think over it again.

**Ronnie:** No, on the contrary, see the point is that these are all one offs, as a model and as a corporate I cant only do tent-poles because then I will be restricted because by the very nature of the big movies means normally star cast, ya so if I am one of many then if I were to say I would only make big movies I don't think we could do more than 6 big movies. Next year we have got 6 big movies coming out one which I said is *Main aur Mrs. Khana* with *Salman Khan* then we got *Kaminay* with *Shahid Kapoor* then we got a *Ken Ghosh* musical with *Shahid Kapoor* then we have *Ashutosh Gowariker's* next movie with *Priyanka* which is *Whats your Rashi*, we have got *David Dawan* directing his next one which is *Hook ya Crook* with *John Abraham* so we got almost 6 so they don't get bigger than that but with that for us to have a studio model we have another six unique ones also which are low budget but they have got to break out in their thing, so it is not as if there parallel cinema in that context. I think *Wednesday* and all that have gone past the definition of parallel cinema like *Friday* would be parallel cinema from that point of view, you know the movie on the Bombay blast, you know *Mumbai Meri Jaan* is perhaps parallel but *Wednesday* is not.

**Tejas:** By parallel cinema I meant that one does not need to wait for critical reviews and then go for it.

- Ronnie:** Word of mouth.
- Tejas:** Ya, word of mouth. Ok, and what is the status of our animation movies?
- Ronnie:** Both are on the floor, one we might release in 09-10 and the other one is definitely for 10-11.
- Tejas:** So first one would be *Arjun*.
- Ronnie:** First one would be *Ali Baba and the 40 Thieves*. But we are not dead sure whether we will release in 09-10 and the reason I am saying that because we believe that animation still hasn't settled into Indian audiences. We need to do a little homework on that first and then create an overall aura around animation and then just go out and release the movie.
- Tejas:** Ok, thank you.
- Ronnie:** Thank you.
- Moderator:** Thank you Participants who have a question may press \* and 1 now, the next question is from the line of Mr. Bhushan Gajaria of IDFC SSKI . Please go ahead.
- Bhushan:** Hi, this is Nikhil Vora here. Ronnie just a couple of things specifically on the broadcast business, do you still see while you curtail losses and investments in that business but you still see merit in being in that business longer term given that our capital incurred in that segment would be over Rs. 320 odd crores till date and clearly profitability is going to be a long way off. Incrementally will it really make any sense to be, to have the same capital into that business?
- Ronnie:** That is your question only?
- Nikhil:** They are a couple more but if you can just get this on broadcast.
- Ronnie:** Ya, sure well there will be deferring views on that, our view is obviously very categorically yes, because otherwise we wouldn't have got into that stream. I don't think anything to that extent has changed in that. Let me be absolutely clear as to why we got into the broadcasting stream because for us in terms of being on the top end of the value chain therefore Broadcasting is an overall media story and integrated stories helps a lot of cross promotions, it helps a lot and it is a stand alone profitable money. I think with our presence of cross model if we apply that on day one we might have been even in a better place right now but then that is the whole world can be saying that when they are right there. I think to that extent we don't have many, many regrets. The spaces that we are taking, *Bindass* is not about broadcasting space only, it is a huge space. We are already in the motion picture space so for us movies and youth are two spaces, huge audiences that we cover across the spaces we are catering to, youth is where we cover for our games, youth is where we cover for our



movies as our core audience and to us therefore *Bindass* is an iconic youth brand and we want to build not just based on the success of the channel. When it comes to motion pictures we have understood that space and therefore to have 3 channels which are best of Hollywood, which is best of everything that is not Hollywood and Bollywood which is *World Movies* channel and a Bollywood channel makes sense. Now all of this is from a strategic point of view, so your question would be at the end of the day if you put Rs. 320 crores now, I am telling you we are going to put another Rs. 100 crores that is Rs. 420 crores so where is it all going to add up and when are you going to get your money back and how we are going to pay it back? To which my answer would be if you look at 2 years down the line just in DTH there is going to be 20 million subscribers if not more, that alone from 1992 when Zee TV started till 2008 even though they have been 70 million satellite homes the declared base has not been more than 8-10 million homes. In 2 years time we are going to have a 20 million declared base in just DTH, now these channels that we are talking about have the possibility of high stickiness as the consumer starts paying much. The question today of everyone of business model is on 80% advertising, 20% pay, if we can move that to 45-50% and 50% then you will see that the trajectory when it moves on the break even will be substantial. Last our cost model is so tight that when we move into the trajectory of the revenues that come in from pay we will see that possibly as one of our more stable businesses as compared to Gaming and Movies which would always have not a hit or miss but your treasury may have an up an down, Broadcasting would get a high sign of stability as we go forward. So that is our view as we say.

**Nikhil:**

Ok, really committed on that space as we speak right now. Second on this Hollywood slate that we have you did briefly elude on that in your opening remarks but how does one really factor in the profitability and loss of both businesses especially all the 3 movies we have already released and I am sure there is more than adequate visibility of the same. How do you really break that out?

**Ronnie:**

Ok, the movies you are saying.

**Nikhil:**

Ya, *The Happening* and *I Think I Love my Wife* and *The Namesake*?

**Ronnie:**

Before also where we have recorded that *Namesake* and *The Happening* are clearly in profits on the first cycle and the third movie which is *I Think I Love my Wife* will have to go into a second cycle for it to break even, the other two are profitable clearly from the first cycle itself. And the first cycle as a revenue cycle from where *Fox* comes is theatrical, followed by Home video, followed by television so right now on *The Happening* the home video have started releasing world wide and then the television starts. Here, we put our movies on our movie slates here from between 3-4-5 months, they put on movies only 15-18 months after theatrical release because the home video contributes 30-40% revenue break up for them

and that would kill that cycle. Here home video is only 5-7% of our revenue mix.

**Nikhil:**

Ok, lastly on broadcast you know if we chip off the syndication revenue from the broadcast revenue what would be the core broadcast income?

**Ronnie:**

But in this quarter for example what has been syndication revenue. I am just saying in this quarter for example we get about Rs. 7 crores out of Rs. 20 crores would be from syndication. Now just to pause for a second when you say you would want to strip that off, the reason you would want to strip off in the first year..

**Nikhil:**

That was what I was coming to if the entire model for broadcasting is also built on how strongly we built on content flow be it a financial or the producer of movies, then the syndication revenue would anyway be available to us?

**Ronnie:**

Wait a minute. That is why I paused, which is why I wanted to correct your question. If not *UTV* movies, the channel has bought another 300 movies, so if we are syndicating those movies, we are syndicating movies like the one from *Mahesh Bhatt* called *Jannat* and all the others which are not *UTV* movies, they are 300 non-*UTV* movies in the library of the channel and those are the movies we are syndicating across the border also, no.1 No.2 our syndication revenues include platforms where we go on to the US where we are taking up channel on *Direct TV* or in *Tokyo* or *New Zealand* or in *SAARC* countries and whatever else. So that is why I wanted to know why you wanted to strip off syndication because this is not the *UTV* motion movie pictures syndication revenue that is coming into the channel.

**Nikhil:**

Ok, got it Sir. Just one last thing, what is your feel on the entire shake up that is happening in the Indian film industry and both in terms of ability to strike more on revenues and profitability or possibly doing incremental revenue or profit share with lead artist.

**Ronnie:**

Just as I understand the question when you say the shake up you mean *Akshay Kumar* getting shaken up or?

**Nikhil:**

Ya, I guess *UTV* also.

**Ronnie:**

No, when you say shake up means what kind of shake up?

**Nikhil:**

No, I am just saying across the border hit-miss ratios and even the cost structure where even the most profitable movies are still don't end up making more than 30% then the common ones on a broad basis so I am not talking about just one off like *Ghajini* and stuff. But most profitable movies don't make more than 30-35% and obviously how the model sustenance will be simply addressed. Just want to know your thought on what will evolve and stuff like that.

**Ronnie:**

Ya, see I just want to say that the margins here when it became 20-30% and beyond analyzing people who are buying these movies you are not analyzing that sole proprietor who has sold that movie, there are lot of movies which were made with 5 crores and sold it for 10 crores, his profit margin is 50%, so the person who bought for 10 crores then may have made a profit of Rs. 2 crores therefore his profit margin is around 20% so on that full movie the margin is actually around 60% if you look at it from that point of view, so what has really shaken up now is that everyone was making content thinking that some other person will buy it that has been the biggest shake up where that market has dried up again so it is back to basics which was 2 years back i.e. please make a movie that you think will stand on its own feet and will do well and will get released on its own. Therefore, when you channelized this entire market the percentages change as you go forward because the cost of acquisition will not be there. So the people whom you don't normally track which are the sole proprietors will not have that margin. I believe lesser movies are going to be made this year. I believe that movies will be made and not all of them will get released this year. There will be movies made from Rs. 10-12-15 crores that will not see the light of day because you have to spend another Rs. 8 crores to go and release them which nobody will do and therefore those movies, so you will find that a lot more people are fighting for noise level in terms of being able to grab hold of weekends you will find a lot more available weekends to see movies to therefore have a larger and bigger box office with less noise as far as that is concerned. And the shake up is really on those elements. That artiste has gone down and corrected, they only went up for a year so yes they have come down, and it hasn't been that much of a boon for 5 years.

**Nikhil:**

But are you more aligned to doing revenue and profit share incrementally or you feel comfortable with the way it is?

**Ronnie:**

See in our model, we are producers and most of the other corporate houses who have gone into this business must have been acquirers, we have been producers so even in a *Studio18* or *Reliance* they are not making any movies so they go to somebody else, they go to us for processing I think that difference is very much there. At this point none of them are making a movie whether they will do it in the future I don't know but today see if I were to just analyze curtly all the other corporate houses, the movies which they have released there is not a single movie they have produced, these are all movies they have acquired

**Nikhil:**

Ok, thanks Ronnie for this.

**Ronnie:**

Ok, thank you.

**Moderator:**

Thank you. The next question is from the line of Mr. Atul Bhole of Tata Mutual Fund. Please go ahead.

- Atul:** Hello Sir, I just want your comments on the ROCE in the movies business, capital employed is stretching to almost Rs. 1,000 crore, going forward how will the ROCE behave? Right now it is around 6-7% annually.
- Ronnie:** Yes, I think I sort of addressed it in my initial comments but I will repeat that we are basically about Rs. 800 crores and yet, you see that while it will go up a little bit to complete our overall slate, we do want to bring that down substantially as we go forward. Out of the Rs. 800 crores, is about a Rs. 175 crores in Hollywood slate so that is not going in for further investments, we are going to have a liquidity when of about Rs. 175 crores plus the profits the flow from it plus now that we are fully invested we add that 10-12 movies slate we see only cash flows from existing movies going to do that after we do a little bit of peak funding. Our objective is to bring that every successful year down below sea level and not going up at all.
- Atul:** Ok,
- Ronnie:** A temporary up that it will go as I said to complete our present slate.
- Atul:** Ok, thank you.
- Ronnie:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mr. Ram Patnaik of Religare. Please go ahead.
- Ram:** Good afternoon sir this is regarding the films that we are going to release in FY09 including Q4 which we are going to have two movies that are yet to come. How many movies are expected in FY 09 and how many will be big, medium and small.
- Ronnie:** We are expecting not less then 12 movies and upto 15 movies of which 6 are big, 3 will be medium and 6 will be small.
- Ram:** This is for FY9 you are talking about.
- Ronnie:** FY 9-10, which is, I am sorry FY09 which is of this quarter you are talking about?
- Ram:** No, full year, FY09?
- Ronnie:** Ya, the total full year means only 3 months that are left which is Jan, Feb and March.
- Ram:** I was referring to April 08 to March 2009.
- Ronnie:** For these 9 months we have released 7-8 movies, we have released 7 movies between April of 08 to December of 08 and therefore it will be 10 movies for 08-09 and and we see that going from 12-15 for 09-10.

- Ram:** Out of these 10 movies how many big, medium and small?
- Ronnie:** In these 08-09 you are saying, I would consider *Race*, *Kismat Connection* to be the big ones, *Fashion* to be medium to big and the rest all small. And in this quarter *Delhi 6* so I would say by and large 4 and 6.
- Ram:** Ok. Thank you.
- Ronnie:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mr. Sadananad Shetty of Kotak Portfolio Management Services. Please go ahead.
- Sadanand:** Good afternoon to all. I have two specific questions, the percentage increase in carriage and distribution cost, one and the second one is the plans or tricks that you to scale up television content and margin from 5 to 9%.
- Ronnie:** Sure, No.1 our carriage fees has gone down not up as you can see in the quarter of October 09-10. I am sorry October to December cumulatively the carriage fee has gone down, in fact they have gone down substantially and again in my opening comments I mentioned that they are almost 40% down from the previous quarters. Two as far as our margins go in TV content I think we have got 16 shows that are all on successful channels, on the Sun network and from that point of view while 6-7-8 are mature shows we are being a lot more ruthless about the continuity of shows when they don't show the margins and we also got into our own production in the South which is something we haven't done in the last 8 years, so we have put all of that together, so that is how we pressed the 5 going up to 8-9% .
- Sadanand:** Thank you, I have a follow up question on carriage fees this is perhaps against the trend where we are seeing the leading channels are increased carriage and distribution cost, maybe you can give us you know one or two reasons as to why it's been down for you?
- Ronnie:** Its been down for us because that is how we have negotiated them, in the specialty channels that they arranged and we have actually gone there for *Bindass Movies*, we had served notices which is public knowledge that we are not going to pay the carriage fees in that context, a few operators switched us off but by and large for zero carriage we are operating in most of the spaces. Two, I would say that starting September of 08 it would be incorrect for any one to assume that anyone is actually increasing their carriage fees for all. I would say even other competitors whether it is *INX*, whether it is *NDTV* and all have actually rationalized there now whether they have rationalized to 40% I will not be able to comment, but I don't think at this stage post September 08 any one has increased they carriage fees.
- Sadanand:** What are the aggregate channel shares of all channels?

- Ronnie:** When you say channel share you mean Times spent, Reach, GRP's?
- Sadanand:** GRP's.
- Ronnie:** GRP's, *Bindass* and *Bindass Movies* effectively each range between the 20-26 GRP each, *World Movies* is of course a specialty channel goes from 1-4 GRP's and *UTV Hindi Movies* in the 30 to 35 range of GRP.
- Sadanand:** Thank you very much.
- Ronnie:** Thank you.
- Moderator:** Thank you. Due to time constraints we will be taking the last two questions. The next question is from the line of Mr. Abneesh Roy of Edelweiss. Please go ahead.
- Abneesh:** Fine, in terms of TV content you also do content for Hindi GEC players and due to the strike the contract will be renewed got shifted in FY10 so I wanted to understand that since broadcasters themselves having huge top line pressure what is the outlook on margins of GEC players for your TV content.
- Ronnie:** Sorry what did you mean by the strike as I didn't quite get that?
- Abneesh:** The strike happened in Q3, right?
- Ronnie:** The strike occurred for 2-3 weeks, yes.
- Abneesh:** Due to that what happened was 10% kind of increase happened?
- Ronnie:** See the 10% increase was the 10% component of production cost to be honest. So if you look at that it is a 1-2% increase in your episode story cost, that is how it should be viewed. Because the 10% increase was on segments of labour cost which constitute 10% of your overall production cost of that series
- Abneesh:** So that is marginal you are saying.
- Ronnie:** It is marginal yes.
- Abneesh:** Second is in terms of your Broadcasting could you tell us in terms of DTH how much are you getting paid currently say from that to from Dish TV and Tata Sky. Per subscriber what is the payment you are getting currently?
- Ronnie:** I am not quite sure because of the competitive nature because we have closed some very clear deals I am not very sure whether we could have specific questions which will be answered in the mail and we feel that if it is not confidential we would but to be honest with you with all this stuff some very, very strong deals because of our ability as an overall media company because we are also doing Pay per view and



VOD with them in our movies we have got some very special rates so it is not in our competitive interest to put this into a public domain but if you have specific questions and if you talk to our Investor Relations team later on we can answer to the best of our ability we can.

**Abneesh:**

I will do that. My last question is on your movie segment business wherein you have signed an exclusive deal with *Walt Disney*. I wanted to understand the margins which can come in this business and how big the pie is?

**Ronnie:**

Ya first let me tell you that the exclusive deal is all of Walt Disney pictures in India will be theatrical released by us that is the only exclusive part, their foreign Hollywood movies in India will be released by us and we believe that they have a slate of about 8-12 movies a year, we believe that the box office share that could come to us would be Rs. 25 to 35 crores on to our top line and we have no cost and a 10% margin on it. That's it.

**Abneesh:**

Ok. Thank you.

**Ronnie:**

Thank you.

**Moderator:**

Thank you. The next question is from the line of Mr. Venugopal Garre of Credit Suisse. Please go ahead.

**Venugopal:**

I just want to check the timelines for animation movies of next year and similarly the games software whether they are workable on whether you are working on.

**Ronnie:**

*Arjun* definitely a movie for 010-011 and *Ali Baba* maybe in 09-010 but as I mentioned a little earlier we believe we need to do a lot more PR work for overall animation movies in India rather than go and release one more because almost every movie has not done well and we believe therefore that we need to do some spade work in creating an overall environment and aura and work with the television channels to create a demand for animation in India that might be the reason we might move *Ali Baba* into 10-11 otherwise it is slated for 09-10. As far as our 3 IP's are *Ignition* is concerned at this point of time and one quarter here or there can move around because these are very, very high value games and from our point of view getting it right is more than getting IT around on time. But that does not mean a time immemorial but at least one quarter here or there will not be critical for us, we are looking at all three games starting from the calendar quarter which is the 4th quarter of our next financial year of 09-010 and going forward on a quarter, quarter basis.

**Venugopal:**

From 4th quarter of 09-010

**Ronnie:**

And then first and second financial quarter of 10-11 and they could all move by one quarter.

**Venugopal:**

And the second question just I just wanted to check the cash balance and Debt as of December 08?

- Ronnie:** Yes, our net debt I think stands at about Rs. 170 crores
- Venugopal:** This is the net debt.
- Ronnie:** Ya.
- Venugopal:** And just on that I wanted to check the 19 crore of other income of course it is not all related to interest in cash so essentially I just wanted to check since you are net debt so what the transfer pricing thing that you mentioned in respect to subsidiary?
- Ronnie:** Of course for example if we have a subsidiary as per the income tax rules we have to charge interest if we have given money to a subsidiary.
- Venugopal:** Ok, I get it.
- Ronnie:** Other wise in any case they are going to charge us tax of 33% on deemed interest plus the 200% penalty.
- Venugopal:** So essentially this would be largely recurring to a large extent.
- Ronnie:** To the extent of its funding only.
- Venugopal:** Ok, fair enough, thanks a lot.
- Ronnie:** Thank you.
- Moderator:** That you. The last question from the line of Mr. Ravi Baid from Sahara AMC. Please go ahead.
- Ravi:** Sir just wanted to know any specific agreements of the Disney agreement that you may want to mention.
- Ronnie:** The Disney shareholders agreement or the Disney theatrical?
- Ravi:** That they have given to UTV..
- Ronnie:** No the essence of the distribution theatrical is all Disney Hollywood movies in India which they otherwise had a contract with Sony Columbia, all of them have now moved to UTV, number 1, number 2 they will spend on marketing, they will spend on prints, they will spend on publicity and we get the 10% share and we give them 90% of the box office proceeds.
- Ravi:** Ya, thank you Sir.
- Moderator:** Thank you I will now like to hand over the conference to Mr. Shah who will give his few closing comments.
- Mihir:** Thanks to the management of *UTV* for spending their valuable time and thank you to every one for being on the call. Wish you all the very best for the coming quarters.

***Moderator:***

Thank you Mr. Shah and Mr. Screwvala, on behalf of Prabhudas Lilladher and that concludes with this evenings conference call. Thank you for joining us, you may now disconnect your lines.

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***Note:***

This document has been edited to improve readability